

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Bay Area Narcotics Enforcement Team</b>		County <b>Bay</b>
Audit Date <b>December 31, 2005</b>	Opinion Date <b>June 19, 2006</b>	Date Accountant Report Submitted to State: <b>June 28, 2006</b>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

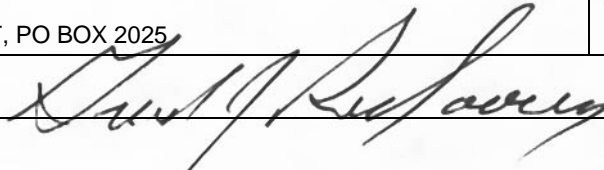
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			<b>X</b>
Reports on individual federal financial assistance programs (program audits).			<b>X</b>
Single Audit Reports (ASLGU).			<b>X</b>

Certified Public Accountant (Firm Name) <b>REHMANN ROBSON GERALD J. DESLOOVER, CPA</b>			
Street Address <b>5800 GRATIOT, PO BOX 2025</b>		City <b>SAGINAW</b>	State <b>MI</b>
Zip <b>48605</b>		Accountant Signature 	

**BAY AREA NARCOTICS  
ENFORCEMENT TEAM (BAYANET)**

**Bay City, Michigan**

**FINANCIAL STATEMENTS**

**For the Year Ended  
December 31, 2005**

**BAY AREA NARCOTICS  
ENFORCEMENT TEAM (BAYANET)**

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

## INDEPENDENT AUDITORS' REPORT

June 19, 2006

To the Board of Directors  
Bay Area Narcotics Enforcement  
Team (BAYANET)  
Saginaw, Bay, Midland, Gladwin,  
Isabella and Clare, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund and the remaining fund information of the **Bay Area Narcotics Enforcement Team (BAYANET)**, a component unit of Bay County, Michigan, as of and for the year ended December 31, 2005, which collectively comprise BAYANET's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of BAYANET's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the remaining fund information of the **Bay Area Narcotics Enforcement Team** as of December 31, 2005, and the respective changes in its financial position thereof and the budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The **Bay Area Narcotics Enforcement Team** has not presented a Management's Discussion and Analysis (MD&A) as required supplementary information that the *Governmental Accounting Standards Board* has determined is necessary to supplement, although not required to be, a part of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2006, on our consideration of BAYANET's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

# **BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)**

## **STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET**

**DECEMBER 31, 2005**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 280,754	\$ -	\$ 280,754
Accounts receivable	55,858	-	55,858
Prepaid items	3,054	-	3,054
Capital assets, net of accumulated depreciation	-	36,095	36,095
Total assets	<u>\$ 339,666</u>	<u>36,095</u>	<u>375,761</u>
<b>Liabilities</b>			
Accounts payable	\$ 57,699	-	57,699
Accrued liabilities	29,785	-	29,785
Total liabilities	<u>87,484</u>	<u>-</u>	<u>87,484</u>
<b>Fund Balance / Net Assets</b>			
Fund Balance:			
Reserved for prepaid items	3,054	(3,054)	-
Unreserved	249,128	(249,128)	-
Total fund balance	<u>252,182</u>	<u>(252,182)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 339,666</u>		
Net Assets:			
Invested in capital assets		36,095	36,095
Unrestricted		252,182	252,182
Total net assets		<u>\$ 288,277</u>	<u>\$ 288,277</u>

The accompanying notes are an integral part of these financial statements.

# BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

## STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2005

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Expenditures / expenses</b>			
Public safety	\$ 873,387	\$ (14,878)	\$ 858,509
<b>Program revenues</b>			
Charges for services	527,582	-	527,582
Operating grants and contributions	431,050	-	431,050
Total program revenues	958,632	-	958,632
Net program revenues			100,123
<b>General revenues</b>			
Interest earnings	3,738	-	3,738
Revenues over (under) expenditures	88,983	(88,983)	-
Change in net assets	-	103,861	103,861
<b>Fund balance / net assets</b>			
Beginning of the year	163,199	21,217	184,416
End of the year	\$ 252,182	\$ 36,095	\$ 288,277

The accompanying notes are an integral part of these financial statements.

# BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

**FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>Revenues</b>				
Forfeitures	\$ 465,850	\$ 465,850	\$ 505,837	\$ 39,987
Grants - Saginaw Chippewa Tribe	-	-	422,255	422,255
Interest income	-	-	3,738	3,738
Reimbursements	-	-	21,745	21,745
Other	-	-	8,795	8,795
Total revenues	<u>465,850</u>	<u>465,850</u>	<u>962,370</u>	<u>496,520</u>
<b>Expenditures</b>				
Wages and payroll taxes	95,000	95,000	318,099	223,099
Office supplies	9,000	9,000	6,781	(2,219)
Narcotics / operational purchases	30,000	30,000	46,284	16,284
Informants	9,000	9,000	9,880	880
Investigative	4,000	4,000	3,010	(990)
Office lease and utilities	42,000	42,000	40,779	(1,221)
Communications	30,450	30,450	27,244	(3,206)
Federal grant shares	115,000	115,000	121,205	6,205
Vehicle leases	80,000	80,000	148,439	68,439
Forfeiture costs	8,000	8,000	94,712	86,712
Contracted services	9,000	9,000	12,942	3,942
Equipment repairs	2,500	2,500	7,922	5,422
Vehicle repairs and towing	2,100	2,100	979	(1,121)
Education and training	4,800	4,800	7,095	2,295
Capital outlay	25,000	25,000	25,995	995
Other	-	-	2,021	2,021
Total expenditures	<u>465,850</u>	<u>465,850</u>	<u>873,387</u>	<u>407,537</u>
Net change in fund balance	-	-	88,983	88,983
Fund balance, beginning of year	<u>163,199</u>	<u>163,199</u>	<u>163,199</u>	<u>-</u>
Fund balance, end of year	<u>\$ 163,199</u>	<u>\$ 163,199</u>	<u>\$ 252,182</u>	<u>\$ 88,983</u>

The accompanying notes are an integral part of these financial statements.



# **BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)**

## **STATEMENT OF FIDUCIARY NET ASSETS**

**DECEMBER 31, 2005**

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	<b>Agency Fund</b>
<b>Assets</b>	
Cash and cash equivalents	<u>\$ 159,626</u>
<b>Liabilities</b>	
Unadjudicated seizures	<u>\$ 159,626</u>

The accompanying notes are an integral part of these financial statements.

# **BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)**

## **Notes To Financial Statements**

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### **1. DESCRIPTION OF THE ENTITY**

BAYANET was formed in 1981 as a cooperative, multi-jurisdictional unit of narcotic investigators comprised of personnel from municipal, county, and state law enforcement agencies within the Counties of Saginaw, Bay, Midland, Gladwin, Isabella and Clare.

BAYANET is a discretely presented component unit of the County of Bay, Michigan. Accordingly, the accounting policies of BAYANET conform to generally accepted accounting principles as applicable to governments.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Government-wide and fund financial statements**

As permitted by GASB Statement No. 34, BAYANET uses an alternative approach reserved for single program governments to present combined government-wide fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and General Fund Balance Sheet and the Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balances.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

BAYANET maintains only one governmental fund – the general fund, which is also considered a major fund for reporting purposes. Separate financial statements are provided for the general fund and the fiduciary fund, even though the latter is excluded from the government-wide financial statements.

# **BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)**

## **Notes To Financial Statements**

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### **Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. The agency fund uses the accrual basis of accounting also, but does not have a measurement focus.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Modifications from the accrual basis are: (a) revenue is recognized when it becomes measurable and is available as a net current asset and (b) expenditures are recorded when the liability is incurred, except for principal and interest on long-term obligations which are recorded when due. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts presented as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Interest earned on deposits are reported as *general revenues* rather than as program revenues.

### **Deposits**

Cash and cash equivalents consist of cash on hand and deposits in demand and time deposit accounts.

### **Accounts Receivable**

Accounts receivable represent amounts due from Isabella County (payable from a grant awarded by the Saginaw Chippewa Indian Tribe of Michigan to BAYANET) and reimbursements for wages of personnel funded by member counties totaling \$55,858 which are expected to be collected within one year.

# **BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)**

## **Notes To Financial Statements**

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### **Capital Assets**

Capital assets are comprised of office equipment and are reported as governmental activities in the government-wide financial statements. Capital assets are defined by the board as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Office equipment is depreciated using the straight-line method over estimated useful lives of 4 to 7 years.

### **Budgets and Budgetary Accounting**

Formal budgetary integration is employed as a management control device during the year. BAYANET approves total budget amounts by function; BAYANET currently has one function, which is Public Safety. Unused appropriations for all items lapse at the end of the year.

BAYANET had expenditures (\$873,387) in excess of budgeted appropriations (\$465,850) at the functional level of \$407,537 for the year ended December 31, 2005.

### **Donated Services**

Substantial services related to the utilization of personnel and personal property are contributed by cooperating law enforcement agencies. The value of these services has not been recognized in the financial statements since the amount is not subject to reasonable estimation. Any legal proceedings resulting from the actions of such personnel or the use of donated personal property are the responsibility of the donor agency.

# **BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)**

## **Notes To Financial Statements**

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### **3. DEPOSITS**

At year-end, the carrying amounts of BAYANET's deposits were as follows:

	<b>Cash and Cash Equivalents</b>
Cash on hand	\$ 25,000
Other demand accounts	<u>415,380</u>
	<u>\$ 440,380</u>

This entire balance is considered to be deposits for disclosure purposes.

#### **Deposit and investment risk**

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

# **BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)**

## **Notes To Financial Statements**

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*Interest Rate Risk.* BAYANET's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* BAYANET's investment policy does not have specific limits in excess of state law on investment credit risk. At year-end, BAYANET had no investments and was therefore, not exposed to credit risk.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, BAYANET's deposits may not be returned. State law does not require and BAYANET does not have a policy for deposit custodial credit risk. At year-end, \$220,420 of BAYANET's bank balance of \$420,420 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk. BAYANET's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year-end, BAYANET had no investments and was therefore, not exposed to concentration of credit risk.

### **4. LEASE**

BAYANET leases office space from SAHASA Realty Company on a month to month basis. Total rent expenditures for the year ended December 31, 2005 were \$14,400. BAYANET leases vehicles through the State of Michigan's procurement program. Total vehicle lease expenditures for the year ended December 31, 2005 were \$148,439

# BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

## Notes To Financial Statements

### 5. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets being depreciated:				
Office equipment	\$ 52,382	\$ 25,995	\$(13,243)	\$65,134
Less accumulated depreciation for:				
Furniture and equipment	<u>(31,165)</u>	<u>(11,117)</u>	<u>13,243</u>	<u>(29,039)</u>
Governmental activities capital assets, net	<u>\$ 21,217</u>	<u>\$ 14,878</u>	<u>\$ -</u>	<u>\$36,095</u>

### 6. RISK MANAGEMENT

BAYANET is exposed to various risks of loss related to torts; theft of, damage to, and distribution of assets; errors and omissions; injuries to employees and natural disasters. BAYANET carries commercial insurance to cover any potential claims associated with these risks and has had no claims that exceeded the insurance coverage during the past three years.

### 7. ADJUSTMENTS

Following is an explanation of the adjustments between the general fund balance sheet and the government-wide statement of net assets, which reconciles fund balance to net assets:

Fund balance	\$ 252,182
Adjustments:	
Capital assets that are purchased to be used in governmental activities are reported as expenditures in general fund. However, the statement of net assets includes those capital assets (net of accumulated depreciation) among BAYANET's assets as a whole	<u>36,095</u>
Net assets	<u>\$ 288,277</u>

# **BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)**

## **Notes To Financial Statements**

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Following is an explanation of the adjustments between the general fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities, which reconciles the net change in fund balances to the change in net assets:

Net change in fund balance	\$ 88,983
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Adjustments:

Governmental funds report capital outlay as expenditures. However in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	25,995
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Depreciation expense is reported in the statement of activities, but because depreciation does not require the use of current financial resources, it is not reported as an expenditure in the general fund.	<u>(11,117)</u>
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Change in net assets	<u>\$ 103,861</u>
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

June 19, 2006

To the Board of Directors  
Bay Area Narcotics Enforcement  
Team (BAYANET)  
Saginaw, Bay, Midland, Gladwin,  
Isabella and Clare, Michigan

We have audited the financial statements of the governmental activities, the major fund and the remaining fund information of the **Bay Area Narcotics Enforcement Team (BAYANET)** as of and for the year ended December 31, 2005, which collectively comprise **BAYANET's** basic financial statements, and have issued our report thereon dated June 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered **BAYANET's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **BAYANET's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, the Counties' Boards of Commissioners, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The script is cursive and fluid, with the first name "Lehmann" and last name "Johnson" clearly distinguishable.